# Custom Budgeting For Young Adults

One of the best things about being a young adult is that you are starting fresh and you can finally decide how you want to live your life. Good decisions made here can make decisions later in life quite a bit easier.

The downside to being a young adult is that the mistakes made early in life can have long-lasting repercussions and lead to expensive “must-fix” situations down the road. One of the best ways to establish good habits and a good beginning to your financial life is to evaluate your spending and build a budget.

**What Should You Be Spending?**

Percentage budgeting is a simple and straightforward concept. Instead of allocating fixed-dollar amounts to every line item, you establish a target percentage for each expense category. This process shows you the inherent trade-offs in your spending decisions and can show you where you need to consider cutting back and where you may be able to afford to spend a little more.

Here are some budget percentage guidelines to consider. Remember, these are after-tax amounts:

**Housing:** 25% to 35%

**Transport:** 5% to 15%

**Food (groceries and dining):** 10% to 15%

**Personal care (including clothing):** 5% to 10%

**Health care (including insurance premiums):** 10% to 15%

**Loan repayment (excluding car payments):** 7% to 15%

**Utilities:** 4% to 7%

**Entertainment:** 1% to 5%

These ranges clearly leave room for a lot of personal fine-tuning, and that flexibility is one of the advantages of the percentage method. If you live with your parents, you can move all of that housing allocation to other categories, while if you live in a major urban center, you might easily find yourself on the high end of the housing range even if you live far from the city center with roommates.

Likewise, some people are perfectly happy subsisting on ramen noodles and would rather put more money toward clothing or a nicer car.

**Savings and Investments**

Note that there isn't a recommended percentage for savings and investment. This line item is both singularly important and yet an enormous wild card, and so deserves more than a simple one-liner.

One of the biggest priorities for young adults needs to be establishing an emergency nest egg for a true emergency (as in "somebody wrecked my car"), not a triviality ("I've just got to get a new iPod"). Simply put, without a chunk of savings to fall back on, many young adults will find themselves perilously close to eviction or forced to rely heavily on expensive credit card debt.

A young adult without proper emergency savings should try to divert at least 10% of their earnings each month to an emergency fund for at least one year. Although the resulting amount still really is not enough (you should try to save six months' worth of expenses), it will be enough to pay the rent for a month or two.

Generally speaking, financial advisors will tell you that it is critical to set up a savings and investment plan right away. This is true, but if your student loans cost you 8% a year and the generally expected stock market returns are around 8%, it may be foolish to ignore the "sure thing" of paying off the debt.

That doesn't mean that you should send all excess money towards early debt payments, but you shouldn't be putting 20% of your take-home pay into the stock market if you're still paying off debts.

## Get On Track or Get Run Over

Everyone should reevaluate their budget and their budget process from time to time, and young adults are no exception. If you find that you are on track, you are paying down your debts, saving some money and still enjoying life, then congratulate yourself and keep on doing what you have been doing. If you find that you struggle to make ends meet, though, or find yourself falling back on credit cards as a personal bailout solution, it is time to sit down, write out some spending targets, and put a little more discipline into your financial life.